ELECTRONICALLY FILED - 2018 January 24 4:51 PM - SCPSC - Docket # 2017-381-A - Page 1 of 5

Heather Shirley Smith
Deputy General Counsel

Duke Energy
40 W. Broad Street
Suite 690
Greenville, SC 29601

o: 864.370.5045
f: 864.370.5183
heather.smith@duke-energy.com

January 24, 2018

Jocelyn G. Boyd, Esquire
Chief Clerk/Administrator
The Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia SC 29210

Re: Impact of the Tax Cuts and Jobs Act on South Carolina Utilities
**Docket No.: 2017-381-A**

Dear Mrs. Boyd:

Enclosed for filing are the Comments of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC in the above-referenced docket. Please do not hesitate to contact me if you have any questions or require any further information.

Sincerely,

Heather Shirley Smith /KH

Heather Shirley Smith

Enclosures

cc: Ms. Nanette Edwards, Esq., Office of Regulatory Staff
Ms. Dawn Hipp, Office of Regulatory Staff
Mr. Jeffery M. Nelson, Esq. Office of Regulatory Staff
Ms. Shannon Bowyer Hudson, Esq., Office of Regulatory Staff
Mr. Michael Seaman-Huynh, Office of Regulatory Staff
Parties of Record

ELECTRONICALLY FILED - 2018 January 24 4:51 PM - SCPSC - Docket # 2017-381-A - Page 2 of 5

**BEFORE**

**THE PUBLIC SERVICE COMMISSION OF**

**SOUTH CAROLINA**

**DOCKET NO. 2017-381-A**

**IN RE:**

| | | |
|---|---|---|
| **IMPACT OF THE TAX CUTS AND JOBS ACT ON SOUTH CAROLINA UTILITIES** | ) | **Comments of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC** |

Pursuant to Order No. 2018-26 and the applicable rules of practice and procedure of the Public Service Commission of South Carolina ("Commission"), Duke Energy Carolinas, LLC ("DEC") and Duke Energy Progress, LLC ("DEP") (together, the "Companies") respectfully submit these comments related to reports to be filed regarding the impact of the Tax Cuts and Jobs Act of 2017 (the "Act") on utility operations. As ordered, these comments address the timing and format of the reports.

**BACKGROUND**

On December 28, 2017, the Office of Regulatory Staff ("ORS") filed a petition in Docket No. 2017-381-A ("Petition") requesting that the Commission order all investor-owned utility companies under the Commission's jurisdiction report the impact of the Act on each company's operations. The Petition stated that the Act will, among other things, decrease the federal corporate tax rate from 35 percent to 21 percent, and acknowledged that the federal corporate tax is recovered through tariff rates charged to utility customers. The Petition stated that each utility should file an estimate of its determination of the Act's effects on its most recent available test year information, and an explanation of those effects. The Petition further stated that each utility should propose procedures for changing rates to reflect the effects of the Act. The Petition requested that the Commission's order state that the rates in effect as of January 1, 2018 are subject to refund to ensure ratepayers receive the benefits of the tax changes. The Petition acknowledged that other ratemaking treatments could be explored to ensure that ratepayers receive the benefits of the tax changes as of January 1, 2018.

The Act provides the most extensive changes to the internal revenue code in over thirty years,[1] and utilities will need time to understand the impact of these changes, and to ensure that the information provided to the Commission is accurate and complete. The Companies acknowledge that the federal tax law changes provide the Commission and utilities opportunity to help reduce and smooth out customer rates over the short- and longer-term. These benefits to customers should also be balanced with ensuring the Companies are able to maintain the same financial strength they had prior to the Act's passage. This financial strength has helped the Companies raise billions of dollars of capital at competitive rates and under favorable terms to fund infrastructure investments across the State for the benefit of customers.

This financial strength has also helped the Companies to keep customers' rates well below the national average. The Companies have accomplished this while providing safe, reliable and increasingly clean energy. Keeping with this strong tradition, the Companies are developing both near- and longer-term solutions that will lower customer bills immediately and help off-set future rate increases. The Companies intend to provide more detail on their developing plans through this docket and through upcoming rate proceedings.

The Companies will defer as a regulatory liability (1) all excess accumulated deferred income tax ("ADIT") balances created by the Act in 2017, and (2) the estimated difference between customer revenues actually billed and what would have been billed taking into effect the

1 See, e.g., Jed A. Roher, Impact of Final Tax Reform Legislation, The National Law Review, Jan. 15, 2018, available at https://www.natlawreview.com/printpdf/91387; Thomas Kaplan & Alan Rappeport, Republican Tax Bill Passes Senate in 51-48 Vote, N.Y. Times, Dec. 19, 2017.



ELECTRONICALLY FILED - 2018 January 24 4:51 PM - SCPSC - Docket # 2017-381-A - Page 3 of 5

ELECTRONICALLY FILED - 2018 January 24 4:51 PM - SCPSC - Docket # 2017-381-A - Page 4 of 5

reduced corporate tax rate beginning January 1, 2018 until the Commission determines the timing and nature of returning such benefits to retail customers ("deferred tax benefits").

In Order No. 2018-26, the Commission granted the Petition of ORS and set a deadline of January 24, 2018 for comments from companies about the timing and format of the reports to be filed. The Commission stated that, if necessary, a procedural schedule will be set following the submission of reports by the utilities, and that companies are encouraged to file comments regarding an appropriate schedule when their reports are filed.

**Format:** The Companies assert that the format of the reports provided by the utilities should contain information regarding (1) timing of upcoming rate proceedings, if any, and whether the subject utility plans to address this matter in such proceeding; (2) an estimate of its determination of the Act's effects on its most recent available test year information as requested by the ORS; (3) investments and other costs that could be—potentially—offset by the tax decrease; (4) a description and quantification of the excess ADITs and any proposals for amortization of such excess ADITS and corresponding changes to rate base, including estimates if available; and (5) other aspects of the Act that may affect utilities, such as the elimination of the manufacturing deduction or the elimination of bonus depreciation, and whether those changes affect the amounts that could benefit customers.

**Timing:** Given the extensive and novel nature of the tax code changes, the Companies propose that the information described above be provided to the Commission at the conclusion of the 1st quarter of 2018—in other words, no later than April 2, 2018. This should provide sufficient time to ensure that the utilities addressed in Order No. 2018-26 are in a position to provide complete and accurate information to the Commission. A potential date for reply comments could be May 1st, unless otherwise addressed in an ongoing rate proceeding by any given utility. Given that the Companies are accounting for and reserving the deferred tax benefits as required by Commission order, the time frame proposed by the Company is reasonable and ensures that customer benefit is appropriately captured as the Commission considers next steps on this complex matter.

The Companies respectfully submit these comments for the Commission's consideration.

Heather Shirley Smith /KA

Heather Shirley Smith, Deputy General Counsel
Duke Energy Carolinas, LLC
Duke Energy Progress, LLC
40 West Broad St, Suite 690
Greenville, SC 29601
Telephone 864.370.5045
heather.smith@duke-energy.com

and

Frank R. Ellerbe, III (SC Bar No. 01866)
SOWELL GRAY ROBINSON STEPP & LAFFITTE, LLC
P.O. Box 11449
Columbia, SC 29211
(803) 929-1400
fellerbe@sowellgray.com

Attorneys for Duke Energy Carolinas, LLC and Duke Energy Progress, LLC

Greenville, South Carolina
January 24, 2018



ELECTRONICALLY FILED - 2018 January 24 4:51 PM - SCPSC - Docket # 2017-381-A - Page 5 of 5